

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

PURCHASED WATER ADJUSTMENT)
FILING OF THE NORTH McLEAN) CASE NO. 5388-1
COUNTY WATER DISTRICT)

O R D E R

On September 9, 1983, North McLean County Water District ("North McLean") filed its application with the Public Service Commission ("Commission") requesting approval of its purchased water adjustment clause and authority to adjust its rates in accordance with that clause. North McLean has provided service to its customers since 1970 without passing on any increases in its wholesale cost of water, although it has experienced significant and numerous increases from its three suppliers, the West Daviess County Water District, the City of Calhoun, and the City of Livermore. In its application, North McLean proposed to recover all increases in purchased water costs by its suppliers from the original cost in 1970 to the latest increase effective November, 1983. The Commission has accepted this proposal subject to consideration of the absorption test described herein.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine an applicant's financial condition to determine

whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

North McLean proposed and the Commission has accepted the 12-month period ending June 30, 1983, as the test period in this matter. Adjustments deemed proper and reasonable have been included to more accurately reflect current operating conditions.

REVENUES AND EXPENSES

In its original application, North McLean proposed to adjust revenues by \$21,410^{1/} to offset the increased cost of purchased water; however, in its response to the Commission's Order of September 27, 1983, North McLean showed an increase in purchased water costs of \$25,716.^{2/} After analyzing the information filed by North McLean, the Commission finds that there are mathematical errors in the calculations made in both the original application and the subsequent response. The correct increase in purchased water costs is \$24,038.^{3/} No other adjustments were proposed. The Commission, after careful examination of North McLean's financial condition, made the following adjustments to expenses in conformance with its rate-making policy, to more fairly represent the actual operating expenses of North McLean:

Depreciation Expense

North McLean had depreciation expense for the test period of \$8,423. This reflects depreciation on total plant using a

composite rate of approximately 1.68 percent.^{4/} It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of original cost of the plant in service less contributions in aid of construction. The balance sheet for the test period reflects that contributions in aid of construction at the end of the test period were \$339,943, which is 67.9 percent of the total cost of the utility plant in service. In determining the pro forma depreciation expense the Commission has utilized the depreciation rates applied by North McLean and excluded depreciation associated with contributed property. The adjusted depreciation expense for rate-making purposes is \$2,704, a reduction in depreciation expense of \$5,719.^{5/}

Purchased Water Expense

North McLean's purchased water expense for the test period was \$46,430. North McLean's normalized purchased water expense including the increase effective in November, 1983, from the City of Calhoun is \$52,004. Accordingly, the Commission has increased North McLean's test period expenses in the amount of \$5,574 to adjust for the increased purchased water expense.

Adjustments to the test period operations produced the following results:

	<u>Actual</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 98,086	\$ -0-	\$ 98,086
Operating Expenses	<u>103,816</u>	<u>(145)</u>	<u>103,671</u>
Operating Income	<u>\$ (5,730)</u>	<u>\$ 145</u>	<u>\$ (5,585)</u>

REVENUE REQUIREMENTS

North McLean's annual debt service based on outstanding debt at the end of the test period is \$10,650.^{6/} The Commission is of the opinion that the debt service coverage of 1.2X is the fair, just and reasonable coverage for North McLean to maintain in that it meets the requirements of its lenders and provides adequate surplus for equity growth. Therefore, based on adjusted test period operations, the Commission finds that North McLean should be permitted to increase its rates to produce additional annual revenues as follows:

Adjusted Operating Expenses	\$103,671
1.2X Debt Service Coverage	<u>12,780</u>
Revenue Requirements	\$116,451
Less: Adjusted Operating Revenue	<u>98,086</u>
Increase Granted	<u>\$ 18,365</u>

Thus, the Commission is of the opinion that North McLean can absorb \$5,673 of the increase in purchased water costs from its supplier.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

(1) The purchased water adjustment clause proposed by North McLean is in compliance with 807 KAR 5:067 and should be approved.

(2) North McLean has the potential to absorb \$5,673 of the total purchased water cost increase of \$24,038.

(3) The rates as proposed by North McLean are unfair, unjust and unreasonable and should be denied upon application of KRS 278.030.

(4) The purchased water adjustment in the amount of \$.35 per 1,000 gallons and the rates in Appendix A will provide additional revenues of \$18,365, are fair, just and reasonable and should be approved.

(5) The base rate for future application of the purchased water adjustment clause of North McLean should be:

<u>Supplier</u>	<u>Rate</u>
West Daviess County Water District	\$.92 per 1,000 gallons
City of Calhoun	.67 per 1,000 gallons
City of Livermore	.82 per 1,000 gallons

IT IS THEREFORE ORDERED that the purchased water adjustment clause proposed by North McLean be and it hereby is approved effective on and after the date of this Order.

IT IS FURTHER ORDERED that the rates as proposed by North McLean are unfair, unjust and unreasonable and are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates to be charged for water service rendered on and after the date of this Order and are hereby approved.


IT IS FURTHER ORDERED that for the purpose of future application of the purchased water adjustment clause of North McLean, the base rate for purchased water shall be:

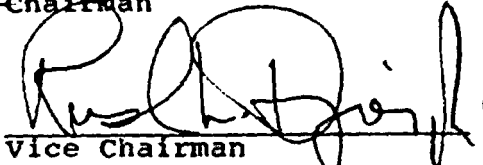
<u>Supplier</u>	<u>Rate</u>
West Daviess County Water District	\$.92 per 1,000 gallons
City of Calhoun	.67 per 1,000 gallons
City of Livermore	.82 per 1,000 gallons


IT IS FURTHER ORDERED that North McLean shall file with this Commission within 30 days of the date of this Order its revised tariff sheet setting forth the purchased water adjustment clause and the rates approved herein.

Done at Frankfort, Kentucky, this 1st day of December, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. Application, Exhibit C, p. 2.
2. Response filed October 24, 1983, p. 2.
3. West Daviess County Water District

31,011.100 gal. X \$.92 =	\$28,530.21	
31,011.100 gal. X .465 =	<u>14,420.16</u>	
Increased Cost		\$14,110.05

City of Calhoun

5,703.600 gal. X \$.67 =	\$ 3,821.41	
5,703.600 gal. X .40 =	<u>2,281.44</u>	
Increased Cost		\$ 1,539.97

City of Livermore

23,966.4 gal. X \$.82 =	\$19,652.45	
23,966.4 gal. X .47 =	<u>11,264.21</u>	
Increased Cost		\$ 8,388.24

Total Increase		\$24,038.26
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4. \$8,423 ÷ \$500,914 = 1.68%.
5. \$500,914 - \$339,943 = \$160,971 X 1.68% = \$2704
\$8423 - \$2704 = \$5,719

6. Bonds:

Principal (5-year average 1983-1987)	\$2,600
Interest	<u>8,050</u>
Debt Service	<u>\$10,650</u>

APPENDIX A

**APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 5388-1 DATED DECEMBER 1, 1983.**

The following rates are prescribed for the customers of North McLean County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

GALLONAGE BLOCK

RATE

First 2,000 gallons	\$7.70 minimum
Next 2,000 gallons	2.35 per 1,000 gallons
Next 2,000 gallons	1.85 per 1,000 gallons
Next 4,000 gallons	1.60 per 1,000 gallons
Next 30,000 gallons	1.35 per 1,000 gallons
Next 60,000 gallons	1.15 per 1,000 gallons
Over 100,000 gallons	.95 per 1,000 gallons